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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

EX PARTE

December 21, 1992

Donna R. Searcy, Secretary  
Federal Communications Commission  
1919 M Street, N.W. - Room 222  
Washington, D.C. 20554

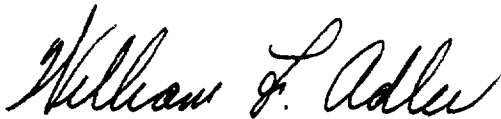
Re: CC Docket No. 92-101, Investigation of Local  
Exchange Carrier Tariffs Implementing Financial  
Accounting Standard 106, Accounting for  
Post-Retirement Benefits Other Than Pensions

Dear Ms. Searcy:

Today I sent the attached letter to the following  
individuals: Charla Rath, Office of the Chairman; Linda  
Oliver, Office of Commissioner Duggan; Madelon Kuchera,  
Office of Commissioner Barrett; Lauren Belvin, Office of  
Commissioner Quello; and Kathleen Abernathy, Office of  
Commissioner Marshall.

I am filing two copies of this letter and the attachment  
in accordance with Section 1.1206(a) of the Commission's  
rules. Please contact me if you have any questions  
concerning this matter.

Sincerely,



Attachment

CC: Ms. Rath  
Ms. Oliver  
Ms. Kuchera  
Ms. Belvin  
Ms. Abernathy  
Cheryl Tritt  
Mary Brown

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List A B C D E

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Washington, D.C. 20004  
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**PACIFIC X TELESIS**  
Group-Washington

IDENTICAL LETTER SENT TO LINDA OLIVER,  
MADELON KUCHERA, LAUREN BELVIN & KATHLEEN  
ABERNATHY

December 21, 1992

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Ms. Charla Rath  
Office of the Chairman  
Federal Communications Commission  
1919 M Street, N.W. - Room 814  
Washington, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

Re: CC Docket No. 92-101, Investigation of Local  
Exchange Carrier Tariffs Implementing Financial  
Accounting Standard 106, Accounting for  
Post-Retirement Benefits Other Than Pensions

*Charla*  
Dear ~~Ms.~~ Rath:

Pacific Bell has demonstrated in its pleadings and ex parte submissions in this proceeding that, under the Commission's own rules, it is entitled to exogenous ("Z-factor") price cap treatment of the costs of implementing FAS 106. In all honesty, I do not understand why there seems to be continuing debate over this question. The only issue that the Commission's rules and decisions permit it to consider at this point is the amount of FAS 106 costs properly included in interstate rates. For Pacific to recover the full amount of FAS 106 costs demonstrated in its expert testimony, Pacific's tariff filing must take effect as scheduled on January 1.

Attached for your information is a brief summary of the key Commission precedents supporting exogenous treatment. I and attorneys from Pacific Bell have discussed these with the Commission's Office of General Counsel.

Please contact me if you have any questions or need further information.

Sincerely,

*Bill Adler*

Attachment

LEGAL TEST FOR EXOGENOUS TREATMENT OF OTHER  
POSTRETIREMENT EMPLOYEE BENEFITS, SFAS 106

- o The Commission established a two prong test for exogenous treatment of GAAP changes.
  - ` Whether or not the change is triggered by events outside the control of the carrier; and
  - ` Whether or not the cost change will be reflected in the GNP-PI. Order on Reconsideration, CC Docket 87-313, para. 63, adopted 4-9-91, FCC 91-115.
  - ` Applying any other test is wrong and would be arbitrary.
- o The Commission has already decided that GAAP changes meet the first prong:
  - "GAAP changes should be eligible for exogenous treatment after a case-by-case review indicates that the change will not be adequately reflected in the GNP-PI."  
Memorandum Opinion and Order on Reconsideration, CC Docket 87-313, para. 75, adopted 1-10-91, FCC 91-15.
  - ` The only open issue is whether or not SFAS-106 is reflected in the GNP-PI.
  - ` The National Economic Research Associates, Inc. (NERA), our expert witness, has demonstrated that most SFAS-106 costs are not in the GNP-PI.
    - The California Public Utilities Commission in a decision dated 12-5-92 found that "economic studies demonstrate that the GNP-PI will not be impacted to any significant degree by adoption of the statement [SFAS 106]." Decision 92-12-015, Finding of Fact 65, p. 64.